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PACIFIC BUSINESS NEWS

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Hawaii shop finds customer loyalty is in the cards

Pacific Business News (Honolulu) - by [Janis L. Magin](#) Pacific Business News

Malia Johnson is practical when she talks about the little purple-and-white cards that customers redeemed during the holidays for discounts on jewelry, candles, crystals and other gifts at **Sedona**, her gift store in Ward Centre.

While the impact of giving \$10 off for each card may have prevented Sedona from exceeding 2007's holiday sales, "at least they're being used and it brings people back," she said.

Johnson began Sedona's customer loyalty program in 1998 in response to big-box retailers such as Wal-Mart and Pier One Imports moving into the metro Honolulu market.

As a small-business owner who had been operating the metaphysical and spiritual gift store since 1988, she wanted to give local customers an incentive to return to her store instead of one of the national chains. More than 10 years later, she has more than 2,800 shoppers signed up as "Sedona Star" customers, and is able to promote the store to all of them through traditional snail mail and e-mail.

"It's basically like a sales-incentive program that runs all year," she said.

Back in 1998 when Johnson started the program, people called the cards "coffee cards," because they reminded them of the cards given out at many coffee and sandwich shops that offered free beverages or food with a fully stamped card.

But loyalty programs have grown in the intervening years to the point that some 93 percent of retail businesses use them as standard offerings for their store, Web and catalog customers, according to a survey of 231 retailers released last summer by the Boston-based **Aberdeen Group**.

The survey found that the top reason businesses create loyalty programs is to develop "lifetime customer value," which was defined as the present value of future spending through long-term customer relationships.

That's especially important during times of stagnant growth, such as during a recession, according to Sahir Anand, senior analyst and author of the customer loyalty report. Building long-term customer loyalty can help ensure a future revenue stream through customers who are expected to spend for several years, he said.

Johnson saw that come into play during the holidays, when shoppers browsing in Sedona suddenly remembered they had fully stamped cards and dashed home to retrieve them so they could receive a discount with a purchase. Johnson said she designed the program by taking the things she liked about other stores' programs and adapting them to her store.

Sedona's program is simple. Customers receive a "star customer card" the size of a business card that has spaces for 10 stamps on one side, and room for their name, address and e-mail address on the other side.

Every time a customer spends \$10 at Sedona, the card is stamped.

Percentage-off rewards presented bookkeeping challenges, so Johnson based the program on the number 10 — one stamp for every \$10 spent, and \$10 off a purchase for every 10 stamps.

While the cards amount to a 10 percent discount, assuming a customer spends only \$10 for each stamp, it works out to only about 3 percent of the purchase prices because shoppers can spend up to \$19 and still receive just one stamp.

That also can be an incentive to increase the amount of a purchase, Johnson said.

"We've had people buy more to get to the next stamp," she said.

A customer who redeems 10 cards is elevated to "Super Nova" status and receives a laminated card printed with his or her name, a personal letter from Johnson, a free tote bag, other gifts and a permanent 10 percent discount.

The more than 300 Super Nova customers far outspend the average customer, who purchases between \$25 and \$50 in merchandise each visit. And they have the highest participation rate in the store's sales promotions, Johnson said.

"One of those people is equal to 10 of the other people," she said.

Many customers have cards with a couple of stamps and never redeem them for the \$10 discount. And for those who do, there is no



Christina Failma, PBN

Lisa Kanae of St. Louis Heights, left, checks out jewelry pieces with help from Sedona owner Malia Johnson.

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minimum amount, so they could choose an item for \$10 and get it for free. That's in theory. Most don't stop at \$10.

"I would say 98 percent of customers purchase over the amount," Johnson said, noting that they also can bundle several cards together to get \$30 off a pricier item.

The cost of the program is built into the store's margins, she said. Sedona typically does more than \$1 million in sales each year.

Although some stores, including most supermarkets, track customer purchases only in a computer system, Johnson prefers that her customers keep the physical cards with them.

"We want these burning in their wallet," she said. "We wanted to ferret out the customer who would participate" in sales incentives and promotions.

Sedona's staff of 14 also must type in card customers' names each time they make a purchase to reinforce face and name recognition.

"It helps our staff get to know them every time they come in," Johnson said. "The whole reason we did this was to build a relationship with the customer."

In addition to names, Sedona employees also record the number of cards each customer has and the date of their last purchase in a Microsoft Office Access file.

That information has helped to weed out customers who haven't shopped in years, so that the store can save on costly direct mail pieces, which are now mailed only to customers who participate in the card program.

Johnson also recently began using e-mail blasts through the online marketing service iContact. A box with yellow forms sits at the cash register with a sign advising customers of a drawing for a \$100 gift certificate every two months.

She figures the \$100 in merchandise she gives away every other month is a bargain and she gets a list of e-mail addresses belonging to people who like to shop at her store.

Small-business issue

Building customer loyalty.

Strategies

- Offer rewards for purchases.
- Keep it simple and encourage buying frequency.
- Build relationships between staff and customers.

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